PAY RATE/SERVICE CREDIT
TABLE OF CONTENTS

Reportable/Non-Reportable Compensation **179**
CalPERS Compensation *179*
Compensation *179*
Compensation Earnable (G.C. section 20636 (g)(1)) *179*
Compensation Limits (IRC section 401(A)(17) *179*
Pay Rate (G.C. section 20636 (g)(2)) *180*
Legislative or Judicial Branch Employees *180*

Pay Rate/Earnings Relationship **181**
Impact on Final Benefits *181*
Full-Time Service Credit *183*
Maximum Service Credit Amount *183*
Maximum Service Credit Amount *183*

CALPERS COMPENSATION

Pay rate and special compensation must be in written pay schedules, memorandums of understanding, bargaining agreements or similar documents that shall be available for public scrutiny. Guidelines defining compensation, compensation earnable, payrate and special compensation are listed in the California Public Employees' Retirement Law (PERL) in G.C. section 20630 and 20636.

COMPENSATION

Compensation is broadly defined as payment to employees for services performed during normal working hours or for time during which the employee is excused from work because of holidays, sick leave, industrial disability leave (payments under Labor Code Sections 4800 and 4850), vacation, compensatory time off, or leave of absence. The employer shall identify and report compensation for the pay period in which the compensation was "earned" regardless of when paid, and shall not exceed compensation earnable.

COMPENSATION EARNABLE
GOVERNMENT CODE SECTION 20636 (g)(1)

Compensation earnable for state members means the average monthly compensation, as determined by the board, upon the basis of the average time put in by members in the same group or class of employment and at the same rate of pay, and is composed of the payrate and special compensation of the member.

COMPENSATION LIMITS
IRC SECTION 401(A)(17)

Section 401(a) (17) of the Internal Revenue Service Code provides dollar limitations on benefits and contributions under qualified retirement plans. Below is a list of the procedures for reporting a member who has reached the limit. CalPERS notifies all employers of the new limits each year in January by sending a Circular Letter. The employer should notify those employees who reach the compensation limit.

The compensation limit is only applicable to persons who first became members or participants of California Public Employees' Retirement System (CalPERS) on or after July 1, 1996.

For those members who are subject to the limit, their final compensation will be capped at the limit in effect for each 12 consecutive-month period that is used to calculate their allowance if they were to retire. For example, the compensation limit for 2007 is $225,000. Therefore, the member should not make contributions on earnings that exceed the $225,000 limit within the 2007 calendar year. The earnings that are mentioned are those earnings that are reportable to CalPERS, which exclude earnings for overtime, automobile allowances, lump sum payouts, etc. The compensation limit does not limit the salary an employer can pay an employee who is a member of CalPERS.

If an employee's compensation reaches the limit, the employer should do the following:

Send a notice to the following address indicating the member's name, Social Security number and period in which the employee's compensation first exceeded the limit:

California Public Employees' Retirement System
Attn: Payroll Manager
P.O. Box 942709
Sacramento, CA 94229-2709

Continue reporting Pay Code, Pay Rate, and Member Earnings, but no member contributions for the periods that remain in the calendar year. Reporting the earnings allows the employee to continue earning service credit without making contributions on earnings that exceed the limit. While the law limits employee contributions, employer contributions should still be paid on all earnings that are reported. If an employee's pay rate increases after the time you cease reporting contributions, please indicate the higher pay rate and earnings on your payroll transaction in case legislation were to change the original limits established for the year.

Once the calendar year is over, resume reporting contributions for the employee and begin the monitoring for the new calendar year. If an employee has already reached the limit and the above has not been done, then make a prior period contribution adjustment and reverse contributions for each period that was reported to CalPERS on earnings that exceeded the limit. Federal law does not allow CalPERS to refund over-reported contributions to an active member of the system. The employer must report these adjustments and refund the money to the employees.

At this time, employer monitoring of their employees' compensation is the only method CalPERS has to determine if limits are exceeded. CalPERS plans to incorporate an automated means to monitor employee compensation and identify those that exceed the limit in the new contribution reporting system that is currently in the beginning stages of being developed.

PAY RATE
GOVERNMENT CODE SECTION 20636 (g) (2)

Payrate for state members means the average monthly remuneration paid in cash out of funds paid by the employer to similarly situated members of the same group or class of employment, in payment for the member's services or for time during which the member is excused from work because of holidays, sick leave, vacation, compensating time off, or leave of absence.

LEGISLATIVE OR JUDICIAL BRANCH EMPLOYEES

Contact CalPERS directly for questions regarding compensation for exempt, Legislative, or Judicial employees.

PAY RATE/EARNINGS RELATIONSHIP

Pay rate indicates the amount of compensation a member is paid for a unit of time (e.g., hour, day or month). The pay rate should remain stable throughout a fiscal year except for pay raises, changes of position, etc. If a member works in more than one position, receives a raise in the middle of a pay period, or has a variable pay rate, report amounts earned under each pay rate separately.

An ***hourly*** pay rate is that rate of compensation to which an employee is entitled under an employment agreement which provides for compensation for each hour of regular time worked by the employee.

A ***daily*** pay rate for both a full-time and a part-time employee is that amount of compensation to which a full-time employee is entitled when the employee's services are performed under an employment agreement which provides for a daily rate of compensation.

A ***monthly*** pay rate for both a full-time and a part-time employee is that amount of compensation to which a full-time employee is entitled, when the employee's services are performed under an employment agreement which provides for a monthly rate of compensation.

IMPACT ON FINAL BENEFITS

Reporting correct pay rates for your active employees is essential in calculating correct member benefits at retirement. The three critical elements used in calculating retirement benefits are:

1) service credit
2) final compensation
3) age at retirement

Service credit and final compensation are directly related to the pay rate and earnings reported for the member. Service credit is derived from the pay rate and earnings reported. It is based on the way a member is paid.

EARNINGS DIVIDED BY PAY RATE EQUALS SERVICE CREDIT

Example	1.	Member Earnings / **Monthly** Pay Rate	=	$1,200.00 / $1,200.00	=	1.000 month of service credit
	2.	Member Earnings / **Monthly** Pay Rate	=	$600.00 / $1,200.00	=	.500 month of service credit
	3.	Member Earnings / **Hourly** Pay Rate	=	$600.00 / $7.50	=	80 hours of service credit
	4.	Member Earnings / **Daily** Pay Rate	=	$600.00 / $30.00	=	20 days of service credit

A member in full-time employment will be credited with one year of service for any of the following:

a. 10 months for those paid on a monthly basis;
b. 215 days for those paid on a daily basis; or
c. 1,720 hours for those paid on an hourly basis.

Partial credit will be given for those working less than the full amount of a, b, or c above. Service credited in hours, days or months is converted to a percentage of a year at the end of each fiscal year. Service credit for each fiscal year is combined to arrive at total service credit.

NOTE: Always use the full-time pay rate. The pay rate should not change except when a pay raise or demotion occurs.

Final Compensation

Effective 07/01/91 all state employees were given a one year final compensation in the calculation of their retirement benefit. This means that 12 consecutive months of salary will be averaged to calculate their retirement benefit.

Effective 07/01/06 all new state employees in collective bargaining unit 2 were given a three year final compensation in the calculation of their retirement benefits. This means that 36 consecutive months of salary will be averaged to calculate their retirement benefit.
NOTE: Any state employment prior to 07/01/06 will exempt the member from the three year final compensation.

Effective 01/01/07 all new state employees in collective bargaining units 1, 3, 4, 7, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, and 21 were given a three year final compensation in the calculation of their retirement benefits. This means that 36 consecutive months of salary will be averaged to calculate their retirement benefit.
NOTE: Any state employment prior to 01/01/07 will exempt the member from the three year final compensation.

For more information, refer to California Public Employees' Retirement Law (PERL), G.C. sections 20037–20037.12.

FULL-TIME SERVICE CREDIT

As one of the major factors used in the retirement calculation, service credit is checked carefully for each payroll entry. CalPERS limits the amount of service credit for each entry to full-time per G.C. section 20962.

Government Code Section 20962
Full-time Service - Basis of Employment
One year of service credit shall be granted for service rendered and compensated in a fiscal year in full-time employment for any of the following:
One academic year of service for persons employed on an academic year basis by the University of California, the California State University system, or school employees who are certificated members, under terms and conditions prescribed by the board.
Ten months of service for persons employed on a monthly basis.
Two hundred fifteen days of service after June 30, 1951, and 250 days prior to July 1, 1951, for persons employed on a daily basis.
One thousand seven hundred twenty hours of service after June 30, 1951, and 2,000 hours prior to July 1, 1951, for persons employed on an hourly basis.
Nine months of service for state employees represented by State Bargaining Unit 3 and subject to the 9-12 pay plan or leave plan, provided a memorandum of understanding has been agreed to by the state employer and the recognized employee organization to become subject to this subdivision. A fractional year of credit shall be given for service rendered in a fiscal year in full-time employment for less than the time prescribed in this section.
(Added by Stats. 1945, Ch. 123; amended by Stats. 1951, Ch. 612; repealed and added by Stats. 1974, Ch. 666; amended by Stats. 1981, Ch. 737; by Stats. 1985, Ch. 176, effective 7/8/85; by Stats. 1986, Ch. 637; and by Stats. 1992, Ch. 1372; repealed and added by Stats. 1995, Ch. 379; amended by Stats. 2000, Ch.1030.)